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INFO RUEHHM/AMCONSUL HO CHI MINH 4728  
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UNCLAS SECTION 01 OF 02 HANOI 000572

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BANGKOK PASS TO RDM/A  
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SUBJECT: MOF AND SBV DISCUSS PLAN TO FIGHT INFLATION

REF: A) Hanoi 377 ("PM Declares War On Inflation");

B) Hanoi 530 (PM Minister Floats Inflation Measures)

11. (U) Summary: The Ambassador met with State Bank of Vietnam (SBV) Governor Nguyen Van Giau and Finance Vice Minister Tran Xuan Ha on May 14 to discuss Vietnam's current macro-economic situation, including implementation of the Prime Minister's seven-point plan to fight inflation (Reftels). Separately, both confirmed that the Government of Vietnam's (GVN) top priority is controlling inflation. The Ministry of Finance (MOF) and the SBV are in the process of making recommendations to the Prime Minister on credit growth, banking, and limiting the expansion of state-owned enterprises. Vice Minister Ha also assured the Ambassador that the MOF plans to consult with industry before implementing the special consumption tax. End Summary.

GOVERNOR GIAU ON BANKING  
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12. (U) During his meeting with the Ambassador on May 14, SBV Governor Giau cited the drop in inflation from 2.9 percent in March to 2.2 percent in April as evidence that inflation is "under control." He acknowledged that liquidity and credit growth in the banking sector must be controlled, while cautioning that the credit system was not well developed so its "stability must be maintained." Giau clarified that the SBV was focusing on newly established banks with limited expertise and capacity. (Comment: These banks have been borrowing money on the inter-bank market, traditionally a short term money source, and lending the money out for long-term property loans, leading to a "maturity mismatch." As a result, the SBV recently announced plans to inject liquidity into these banks at an interest rate of 7.5 percent.)

13. (U) The Governor did not see a need to merge some of these newer banks into more experienced institutions, and said only that they have asked the banks to "follow the law" and operate within their capacity. When pressed, he admitted that credit growth had been too high but that the GVN would "take measures" to control the issue. He said he was scheduled to meet with the PM on May 15 and that the measures would be made public following that meeting. He mentioned that two new joint stock banks would be licensed in the near future, stating that these would "significantly impact the credit situation."

CONTROLLING EXPENDITURES  
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14. (U) On the fiscal side of the PM's plan, the Governor said that Vietnam's provincial governments have received instructions to revise their budget and expenditure plans. The provinces will

report those revisions to the Ministry of Planning and Investment (MPI) in May, and MPI will then report that information to the PM. He added that the central government ministries were also working on similar revisions to their budgets.

15. (U) MOF Vice Minister Ha addressed the issue of rapid expansion by State-Owned Enterprises (SOEs). He admitted that some of the SOEs had grown too rapidly, often expanding into businesses outside of their core area of expertise, especially into areas such as banking, securities, and insurance. He said these areas were very specialized, and carried a significant risk for SOEs lacking relevant experience. As a result, Ha said, the MOF had submitted a proposal to the PM that would limit non-core expansion of the SOEs to 30 percent of their capital (which is supplied by the GVN when the entity is formed). He stated that the MOF was "hoping that the GVN would approve the recommendation and give instructions to the SOEs to implement it" in the near future.

#### SPECIAL CONSUMPTION TAX

16. (U) At MOF, the Ambassador raised the GVN proposal to revise its special consumption tax regime, especially affecting the liquor and automotive industries. The Ambassador urged Ha to consult with the private sector during its decision making process, cautioning that changes under consideration were substantial and that some businesses, especially auto manufacturers, would need lead time to make changes to their business plans. Ha assured the Ambassador that the MOF would consider the needs of stakeholders, including local and foreign businesses.

17. (SBU) The MOF shared the proposed special consumption tax regime with Embassy Hanoi on May 16. Proposed taxes on beer and spirits

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are double what the industry had proposed. Local automakers have decried the proposed special consumption tax regime, which would double the taxes on many popular models, including locally-assembled ones. Some, like Ford, particularly fear GVN attempts to rush in the new taxes, and have asked the MOF to assure them that any new regime would not come into effect until 2010. Embassy Hanoi has met with the liquor industry and Ford, and will meet with GM, to develop a strategy to promote a more business-friendly tax regime.

18. Comment: The PM's message that fighting inflation is the top priority of the GVN has clearly gotten through to the MOF and SBV. Unfortunately, the SBV Governor seems more concerned with bailing out new banks who have engaged in risky borrowing rather than creating a framework for the banking system that would prevent this situation. Hopefully, the unspecified "measures" being proposed to the PM may address this issue. Post will continue to follow the issue and report septel. End comment.

MICHALAK